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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7065
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 0845
RUEHBJ/AMEMBASSY BEIJING 1690
RUEHKA/AMEMBASSY DHAKA 4730
RUEHNE/AMEMBASSY NEW DELHI 4405
RUEHUL/AMEMBASSY SEOUL 7936
RUEHKO/AMEMBASSY TOKYO 5497
RUEHCN/AMCONSUL CHENGDU 1315
RUEHCHI/AMCONSUL CHIANG MAI 1339
RUEHCI/AMCONSUL KOLKATA 0182
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEHGV/USMISSION GENEVA 3470
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 1285
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 04 RANGOON 000046

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SUBJECT: HOW MYANMAR ECONOMIC HOLDINGS (MEHL) REALLY WORKS

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

¶1. (C) Summary. Myanmar Economic Holdings Ltd. (MEHL), one of approximately 55 state-owned enterprises (SOEs) in Burma, is also one of the most powerful and corrupt organizations in the country. Established in 1990 by the Ministry of Defense, active and retired military currently control 70 percent of MEHL, with the Ministry of Defense owning the remaining 30 percent. MEHL owns 100 percent interest in 35 businesses, and has shares in nine joint ventures with foreign companies. Although MEHL has no direct role in granting licenses or import/export permits, foreign and local companies looking to invest in Burma are often "encouraged" to form a relationship with MEHL in order to guarantee a profit. End Summary.

What is MEHL?

¶2. (SBU) Myanmar Economic Holdings Ltd. is one of the largest of Burma's 55 state-owned enterprises. Established as a public company on April 27, 1990 by the Ministry of Defense, its official objectives are "to provide for the economic welfare for soldiers, war veterans, and the Burmese people, as well as support the economic development of the state." While it is difficult to pinpoint who exactly owns what in MEHL, Burma analyst Andrew Selth reports that approximately 70 percent of the company is controlled by high-ranking active and retired military, with the remaining 30 percent owned by the Ministry of Defense.

¶3. (C) According to MEHL's FY06-07 Annual Report, nine military officials sit on the Board of Directors and report to the Adjutant General, Major General Thura Myint Aung. All

but one member is active in the military. According to our contacts, the senior generals appoint the board members for a one-year term. In actuality, however, board members serve until the senior generals decide to replace them.

Members of MEHL Board of Directors
As of March 31, 2007

Name	Position
Lt. General Tin Aye	Chairman
Major General Win Than	Managing Director
Major General Hla Shwe	Member
Lt. General Khin Maung Tun	Member
Major General Aung Thein	Member
Commodore Nyan Tun (Navy)	Member
Major General Nay Win (Air Force)	Member
Major General Thein Htay (Retired)	Member
Brig. General Hlaing Myint	Member

Of the above mentioned board members, six are known to the Embassy. Lt. General Tin Aye works as the Chief of Military Industry; Major General Win Than is the Director of Defense Procurement in the Ministry of Defense; Major General Hla Shwe is the Deputy Adjutant General; Major General Aung Thein is the Director of Resettlement; Commodore Nyan Tun is the Chief of Staff for the Navy; and Major General Nay Win is the Military Assistant to the SPDC Chairman.

Business Ventures

14. (C) In recent years, MEHL has expanded its mandate,
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shifting its business interests from manufacturing to trade and services. Currently, MEHL owns a total of 35 businesses -- 19 manufacturing companies, four trade companies, and 12 service companies -- and maintains interest in nine joint ventures with foreign companies. As of March 31, 2007, the various MEHL enterprises directly employed 196 staff. An additional 1,000 staff worked with MEHL joint venture projects, although their salaries were paid by the partner company rather than MEHL.

MEHL Business Interests
As of March 31, 2007

MEHL-owned Manufacturing Companies

- Myanmar Ruby Enterprise
- Myanmar Imperial Jade Co. Ltd.
- Myanmar Rubber Wood Co. Ltd.
- Myanmar Pineapple Juice Production
- Myawaddy Drinking Water Co.
- No. 1-2 Sin Min Cement Factories
- Ngwe Pin Le Livestock Breeding and Marine Products
- Granite Tiles Factory
- Padonma Soap Factory
- Kanpauk Palm Oil Plantation
- Kanpauk Raw Palm Oil Production Plant
- Okkan Sugar Factory
- Okkan Sugarcane Plantation
- In Nga Kwa Sugar Factory
- Sharpyin Sugarcane Plantation
- Burger Paints Manufacturing Co.
- Sulphuric Acid Factory
- Plastic Consumer Goods Factory
- Taw Win Plastic Bag Factory

MEHL-owned Trading Companies

- Myawaddy Trading Ltd.
- Military Welfare Shops
- Export Crops Plantation and Trading

--Shweli Supermarket

MEHL-owned Services Companies

--Myawaddy Bank
--Bandoola Transportation Ltd.
--Myawaddy Travel and Tour Co. Ltd.
--Nawaday Hotel and Tourism
--Myawaddy Agricultural Services Co. Ltd.
--Myawaddy Trading Ltd. (Foreign Currencies Exchange)
--Myanma Land and Development Co. Ltd.
--Attaran Hotel
--Taninthayi Guest House
--Taninthayi Bird,s Nest Collection and Trading
--X-Ray Scanning Equipment Services
--Leasing Land to International Language and
Business Center (ILBC)

MEHL Joint Ventures

--Myanmar Segal International Ltd.
--Myanmar Daewoo International Ltd.
--Rothmans of Pall Mall Myanmar Private Ltd.
--Myanmar Brewery Ltd.
--Myanmar Noeveau Steel Co. Ltd.
--The First Automotive Co. Ltd.
--Hanthawaddy Golf Club and City Club Ltd.
--National Development Corporation

¶5. (C) While the number of MEHL's joint ventures has fallen significantly from more than 50 contracts in 2002 to just

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nine today, Embassy contact Anwar Hussain (PROTECT) informed us that foreign companies involved in the manufacturing sector must still negotiate with MEHL for their contracts, licenses, and permits. Before a company can build a factory or move its operations to a new location, the owner must meet with someone on the MEHL board to request MEHL support. More often than not, Hussain said, companies pay a bribe to MEHL officials to ensure that the paperwork and official requests are not "lost or delayed." These payments can range from 100,000 kyat (\$80) to five million kyat (\$4000), depending on the type of request, he said. Several trading companies, such as Burmese-owned Diamond Dragon company and Htoo Trading, work with MEHL to secure export and import licenses.

Having a relationship with MEHL, even if it is not an official joint venture, is essential if a company wants to make a profit, he explained.

¶6. (C) While MEHL in FY06-07 earned approximately 38.5 billion kyat (\$30.5 million) in total sales from its enterprises (most of it from annual gems and jade emporiums), it only reported a profit of 12 billion kyat (\$9.5 million). Like other state-owned enterprises, MEHL does not pay taxes to the Burmese Government. Instead, MEHL gives a portion of its income to its shareholders, which currently number 43,171 active and retired military personnel. According to its annual report, MEHL's shareholders in FY06-07 divided approximately \$8 million, receiving an average \$200 for the year. Hussain estimated MEHL's profits to be substantially higher, at closer to \$70 million, and noted that the more senior officials, including those on the Board of Directors, likely received several hundred thousand dollars for their work.

Future Projects

¶8. (C) According to the annual report, MEHL and its subsidiaries will focus on several large projects in FY07-08.

Sin Min Cement Factories No. 1 and 2, which are run by Col. Aung San, petitioned the Ministry of Mines for a license for coal exploration in Sagaing Division. Sin Min Cement Factory expects to receive a grant for 5,165 acres in Kalewa Township in Sagaing Division in 2008 and plans to begin coal mining operations by 2009. According to Hussain, Sin Min Cement

Factories allegedly is in discussions with several Chinese firms to develop the area.

¶9. (C) MEHL also plans to enter into the maritime industry. MEHL companies will build a shipyard on the west side of Rangoon, which will be used to repair fishing and passenger ships of up to 200 tons and construct up to 10 vessels at a time. MEHL expects the project to be completed by 2010. MEHL also plans to start a shipping business, which will ship containers and cargo to Bangladesh, India, Singapore, Malaysia, Thailand, Indonesia and other countries. No timeframe for the shipping company has been established.

Comment

¶10. (C) Although the GOB actively encourages foreign investment, it rarely allows foreign companies to open shop without some sort of relationship, either an unofficial one or a joint venture, with a state-owned enterprise. Successful local companies, such as those owned by regime crony Tay Za, also find it beneficial to work with MEHL to secure contracts. By ensuring that businesses must work through state-owned enterprises such as MEHL, the regime is able to monitor the work of foreign and domestic companies

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easily, while also reaping the rewards of those investments. Close examination of MEHL underscores the reach and breadth of the military's domination over Burma's economy. Their enterprises are key components of the elaborate system of patronage the regime uses to maintain its power. True economic reform, as urged by the IMF and the international community, would require the regime to dismantle the system that ensures its dominance and fills its pockets.
VILLAROSA